

Message Text

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ACTION EUR-12

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INFO AMCONSUL CALGARY

AMCONSUL HALIFAX

AMCONSUL MONTREAL

AMCONSUL QUEBEC

AMCONSUL ST JOHNS

WMCONSUL TORONTO

AMCONSUL VANCOUVER

AMCONSUL WINNIPEG

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TAGS: EIND, EFIN, ENRG, EMIN, CA

SUBJ: PETROLEUM AND MINING: BUDGET PROPOSALS ON RESOURCE
TAXATION

REF: OTTAWA 3747

BEGIN UNCLASSIED

1. FIRST DETAILED SECTION OF THE BUDGET PRESENTED BY
FINANCE MINISTER TURNER ON NOV 18 DEALT WITH CONTROVERSIAL
POLICY OF FEDERAL TAXATION OF NATURAL RESOURCES INDUSTRIES.
INTRODUCED IN MAY BUDGET, TURNER'S PROPOSAL TO DISALLOW
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ROYALTIES, TAXES AND OTHER PAYMENTS BY THOSE INDUSTRIES TO

PROVINCIAL GOVERNMENTS AS DEDUCTIONS FROM FEDERAL INCOME TAXES HAD PROVOKED SEVERE CRITICISM FROM PROVINCIAL AND INDUSTRY SPOKESMEN. IN PRESENTING HIS NOVEMBER BUDGET, TURNER REAFFIRMED HIS INTENTION TO RETAIN THIS PROPOSAL BUT ANNOUNCED THAT HE WAS MODIFYING OTHER PROPOSALS ON RESOURCE TAXATION.

2. TURNER SAID RESOURCE INDUSTRIES CLAIM THAT THEY ARE BEING OVERTAXED, AND "IN SOME PARTS OF THE COUNTRY, THAT CHARGE MAY WELL BE TRUE. BUT I BELIEVE THAT IT IS NOT THE FEDERAL GOVERNMENT WHICH IS OVERTAXING," HE STATED THAT HE HAD HAD TALKS WITH PROVINCIAL REPRESENTATIVES, AND "THE CORE OF THEIR CRITICISM IS THAT THE DISALLOWANCE OF PROVINCIAL ROYALTIES, TAXES AND OTHER SIMILAR PAYMENTS IS SOMEHOW AN ATTACK ON PROVINCIAL OWNERSHIP AND JURISDICTION OVER NATURAL RESOURCES". HOWEVER, HE ADDED, "I HAVE TRIED TO REASSURE THEM THAT THIS IS NOT SO. NO ONE IS QUESTIONING THE PROVINCES' OWNERSHIP OR JURISDICTION. BUT IT IS ABUNDANTLY CLEAR THAT THE BRITISH NORTH AMERICAN ACT GIVES THE FEDERAL PARLIAMENT THE RIGHT TO TAX PROFITS DERIVED FROM THESE RESOURCES."

3. TURNER STATED THAT FOLLOWING PROPOSALS ON RESOURCE TAXATION MADE LAST MAY WILL NOT BE CHANGED:

-- A BASIC 50 PERCENT NATIONAL TAX RATE, TO WHICH WILL BE APPLIED ABATEMENTS AND INCENTIVES;

-- A SPECIAL ABATEMENT OF 15 POINTS OF FEDERAL TAX FOR MINING PRODUCTION IS APPLIED IN 174, RESULTING IN A NET FEDERAL RATE OF 25 PERCENT;

-- ROYALTIES, TAXES AND OTHER LIKE PAYMENTS TO GOVERNMENTS WILL NO LONGER BE RECOGNIZED AS A DEDUCTION IN COMPUTING INCOME FOR FEDERAL TAX PURPOSES;

-- "EARNED DEPLETION" REPLACES "AUTOMATIC" DEPLETION IN 1974 AND IS DEDUCTIBLE AT A MAXIMUM RATE OF 25 PERCENT OF PRODUCTION PROFITS RATHER THAN 33 1/3.

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4. TURNER THEN SAID THAT HE WANTED TO "FIND A COMPROMISE WHICH GIVEN REASONABLE RESULTS IN FINANCIAL TERMS, TO THE PROVINCES, TO THE INDUSTRIES AND TO THE FEDERAL GOVERNMENT." HE ALSO STATED THAT HE HAD BEEN PERSUADED BY THE REPRESENTATIVES OF THE RESOURCE INDUSTRIES THAT EXPLORATION IN CANADA "IS BECOMING EVER MORE EXPENSIVE AND RISKY" AND THEREFORE HE HAD DECIDED TO AMEND OTHER SOURCE TAXATION PROPOSALS IN

THE MAY BUDGET. NEW PROPOSALS ARE:

-- NEW TEN-POINT ABATEMENT FOR PETROLUEM PROFITS INTRODUCED IN 1974 IS INCREASED TO 12 POINTS IN 1975 AND 15 POINTS FOR 1976 AND SUBSEQUENT YEARS. THIS MEANS THAT FOR 1974 THE NET FEDERAL TAX RATE IS 30 PERCENT, FOR 1975 IT WILL BE 28 PERCENT, AND FOR 1976 AND LATER IT WILL BE 25 PERCENT.

-- RATE OF WRITE-OFF EXPLORATION EXPENDITURES AFTER MAY 6, 1974 IS RESTORED TO 100 PERCENT. RATE FOR DEVELOPMENT EXPENDITURES IS REDUCED TO 30 PERCENT.(MAY 6. PROPOSALS WOULD HAVE REDUCED RATES FOR BOTH EXPLORATION AND EXPENDITURE TO 30 PERCENT).

5. AN ILLUSTRATION OF THE SPECIAL ABATEMENT TAXES, TAKEN FROM THE SUPPLEMENTARY INFORMATION BOOKLET OF THE BUDGET, IS BEING POUCHED TO EUR/CAN.

6. TURNER SAID THAT THE GOVERNMENT HAS "PULLED BACK FROM OUR ORIGINAL PROPOSALS". (IN TELEVISED INTERVIEW AFTER THE SPEECH, HE STATED THAT HE "HAD BACKED OFF BUT NOT BACKED DOWN".) HE THEN APPEALED TO THE PROVINCES "TO DO THEIR PART" IN RESPONDING TO THE NEEDS OF THE INDUSTRIES AND THE NATION.

7. INITIAL REACTION TO TURNER'S PROPOSALS ON RESOURCE TAXATION BY ALBERTA'S PREMIER LOUGHEED WAS QUICK AND HIGHLY ADVERSE. HE TOLD TELEVISION INTERVIEWER THAT THE FEDERAL GOVERNMENT HAD ABROGATED THE FEDERAL/ PROVINCIAL AGREEMENT ON PETROLUEM PRICING AND THAT THE BUDGET WAS "BIGGEST RIPOFF OF ANY PROVINCE SINCE LIMITED OFFICIAL USE

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CONFEDERATION." INDUSTRY SOURCES APPEARING ON THE SAME PROGRAM WERE MUCH LESS CRITICAL OF THE FEDERAL POLICY, LIMITING THEIR COMMENTS TO SUCH REMARKS AS "BEING DIS- APPOINTED" WITH TURNER'S BUDGET. END UNCLASSIED

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8. COMMENT: THIS IS NOT THE LAST WE SHALL HEAR OF THE FEDERAL/PROVINCIAL DISAGREEMENT ON RESOURCE TAXATION. TURNER HAS FINESSED THE PROVINCIAL AUTHOR- ITIES BY MODIFYING SOMEWHAT HIS ORIGINAL PROPOSALS BUT NOT GIVING UP ON THE BASIC POLICY OF FEDERAL RIGHTS TO TAX RESOURCE PROFITS. HE HAS MADE PUBLIC APPEAL TO THE PROVINCES TO MATCH HIS APPARENT REASONABLENESS FOR THE WELLBEING OF THE RESOURCE INDUSTRY AND THE

GOOD OF THE NATION. SHOULD THE PROVINCES, PARTICULARLY
ALBERTA, FAIL TO RESPOND WITH A SOMEWHAT SIMILAR
RETREAT FROM THEIR COMPLETE OPPOSITION TO FEDERAL
TAXATION AND MODIFICATION OF PROVINCIAL TAXES ON
THE RESOURCE INDUSTRIES, THEY WILL APPEAR TO BE THE
VILLAINS IN THE STRUGGLE, INDIFFERENT TO THE DEVELOP-
MENT NEEDS OF THE INDUSTRY.
PORTER

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